

Business Taxes for the Self-Employed: The Basics

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www.irs.gov

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- Submit questions
- Not case specific
- Q&A at the end
- SME will answer

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Presentation is:

- Informational and educational
- Not official guidance
- Find archived presentation at:
www.irsvideos.gov

IRS Wants You to Know About Self-Employment

Self-employed persons:

- Make estimated tax payments
- Make self-employment tax payments
- Pay tax on income not subject to withholding by making estimated tax payments

IRS Wants You to Know About Self-Employment

Self-employed persons can:

- Deduct costs of running your business
- Deduct a business expense if it is both ordinary and necessary
- Find more information at the Small Business and Self-Employed Tax Center on [IRS.gov](https://www.irs.gov)

Who is Self-Employed?

- Sole proprietor
- Independent contractor
- In business for yourself full-time or part-time

Self-Employment Tax

Estimated Tax Payments

- Quarterly self-employment tax payments are due:
 - April 15
 - June 15
 - September 15
 - January 15
- File Schedule SE if your net earnings from self-employment are \$400 or more

Employer Identification Number

- Social Security Number – Generally, use your SSN as your taxpayer identification number
- Employer Identification Number - is needed if you pay wages, operate as a partnership or corporation or may be needed for setting up some business accounts
- Apply for an EIN online at [IRS.gov](https://www.irs.gov) – Search term: EIN

Direct Pay

Five easy steps to make a payment:

1. Provide you tax info
2. Verify your identity
3. Enter your payment info
4. Review and electronically sign the transaction
5. Print or record your online confirmation number

Electronic Federal Tax Payment System

EFTPS is:

- Free
- Secure
- Accurate
- Convenient

Visit www.irs.gov and click on the EFTPS link on the homepage to enroll

Free File

- Income less than \$60,000
- Tax software companies make their products available for free
- Income over \$60,000 – use IRS Fillable Forms and e-file for free

E-File

- Transmit your return electronically via secure IRS e-file
- Track refunds within 72 hours of e-filing
- Pay electronically

How Do I File My Annual Return?

- Form 1040
- Schedules C or C-EZ
- Schedule SE

Use Schedule C-EZ only if:

- Had business expenses less than \$5,000
- Use a cash accounting method
- Had no inventory
- Had no net business loss
- Had only one business

Use Schedule C-EZ only if:

... And:

- Had no employees
- Had no depreciation and Amortization business expenses
- Do not deduct expenses for business use of a home
- Had no prior year unallowed passive activity losses

Use Schedule C to report:

- Wages and expenses of your sole proprietorship
- Certain income shown on Form 1099-MISC, miscellaneous income

Profit or Loss From Business (Sole Proprietorship)

- Net profit or loss
- Net sales
- Cost of goods sold
- Gross profits

Net Profit or Loss

Gross income – expenses = net profit or loss

- Net profit is the amount on which you pay tax
- Generally, losses can be deducted from income up to allowable limits

Net Sales

Gross receipts – returns and allowances = net sales

Cost of Goods Sold

Beginning inventory + purchases – cost of merchandise withdrawn for personal use

= Costs of items available for sale – ending inventory

= Costs of goods sold

Gross Profits

Net receipts (gross receipts less sales, returns and allowances) – cost of goods sold = gross profits

Expenses

- Travel
- Transportation
- Entertainment

Travel Expenses

- Ordinary and necessary
- Overnight travel
- Cost of public transportation
- Operating and maintaining a car
- Meals and lodging
- Other related expenses

Transportation

- Ordinary and necessary
- One work place to another
- Does not include commuting

Use of a Car for Business

- Actual businesses expenses include:
 - Gas and oil
 - Repairs
 - Insurance
 - Depreciation
 - Tires
- Commuting mileage not included
- Standard mileage rate

Business Entertainment Expenses

- Entertainment expenses are deductible if ordinary and necessary
- Publication 463 explains the 50 percent limits on business meals and expenses

Depreciation of Business Property

- Useful life longer than one year
- Must be property that:
 - Wears out
 - Gets used up
 - Becomes obsolete or loses value
- MACRS (Modified Accelerated Cost Recovery System)
- IRC Section 179

Home Office Deduction

- Regular method
- Simplified home office deduction
- Two basic requirements to claim the deduction:
 1. Regular and exclusive use
 2. Principal place of your business
- Pub 587, Business Use of Your Home

Recordkeeping

Keep:

- Receipts and sales slips
- Invoices
- Bank deposit slips and cancelled checks
- Other documents to substantiate income and expenses
- Electronic versions of these files

Recordkeeping

Goods records can help you:

- Prevent omission of deductible expenses
- Establish earnings from self-employment
- Explain items on your income tax return

Disaster Planning

- Have a disaster plan in place
- Take advantage of paperless recordkeeping
- Back up electronic files and store in a safe and separate location
- Compile a list of your belongings or business equipment

Business Structures

Sole Proprietorship

- One person business automatically classified as a sole proprietor
- Advantage: Simplest type of business organization
- Disadvantage: Capital is limited

Qualified Joint Venture

- Can only be husband and wife
- Both spouses materially participate
- Both spouses elect to have provision apply
- Treated as sole proprietors
- Each spouse given credit for Social Security
- Each spouse must file a separate Schedule C and SE

Considering a Tax Professional

- Avoid preparers who bases fees on a percentage of the amount of refund
- A paid preparer must sign a return as required by law - PTIN
- Ask questions and get references
- Find out the preparer's credentials

Considering a Tax Professional

- Find out if the preparer is affiliated with a professional organization
- Never sign a blank return
- Review to ensure you understand the entries and accuracy of the return before you sign it
- opr@irs.gov

Online Learning Tools

- IRS Video Portal – contains video and audio presentations on topics of interest to small businesses and individuals
- Small Business Taxes: The Virtual Workshop – on IRS Video Portal under Small Businesses tab

Summary

- Sole proprietor
- SE and ES payments
- EIN
- EFTPS
- Free File / e-file
- Schedule C

Summary

- Formulas
- Expense deductions
- Depreciation
- Recordkeeping
- QJV
- Considering a tax professional

Questions?

Please send us your questions by selecting the "Ask a Question" link under the PowerPoint window and then select the submit button